SEBI defers T+1 settlement plan after opposition from foreign investors

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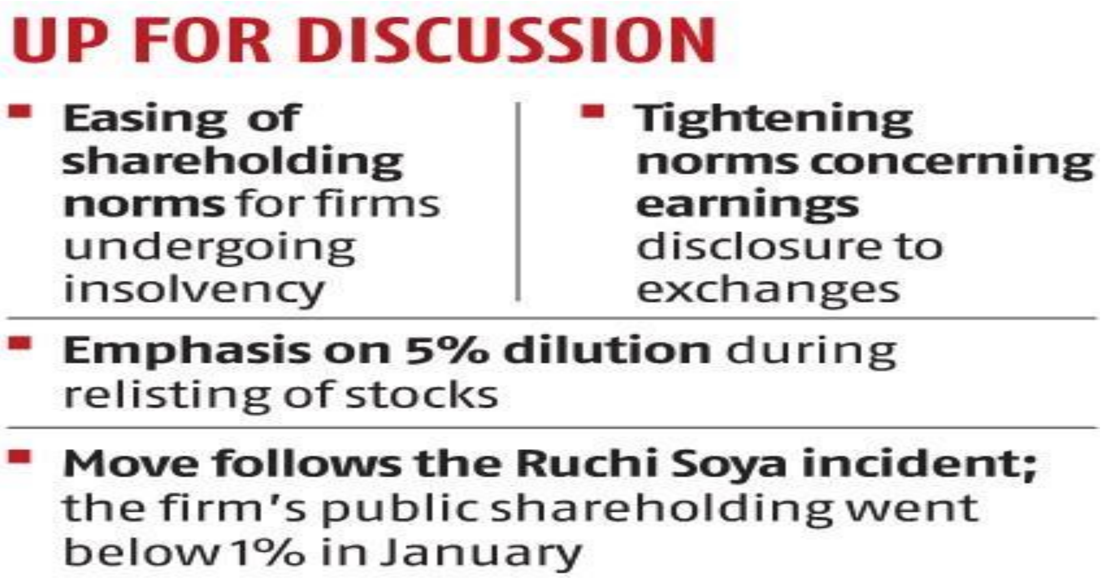
Following the opposition from foreign investors, market regulator Securities and Exchange Board of India (Sebi) has deferred the plan to halve the trade settlement cycle to one day (T+1), a regulatory source said.

According to an earlier schedule, the Sebi board was to decide on the issue at its final board meeting for 2020. Instead, the board, at its meeting to be held on Wednesday, will finalise the public float norms for companies' relisting after undergoing the corporate insolvency resolution process (CIRP). Officials from the finance and corporate affairs ministries will also attend the meeting. Sources said some Budget-related proposals will be also discussed.

Finance Minister Nirmala Sitharaman is expected to present Budget on February 1.

Measures related to capital markets aimed at providing an impetus to economic growth will be discussed, sources said. The decision to put the T+1 settlement cycle on the back burner comes after representations were made by industry bodies on behalf of foreign portfolio investors (FPIs) and domestic brokers.

The Asia Securities Industry & Financial Markets Association (Asifma), an FPI lobby, has written two letters to the Sebi and the finance ministry, highlighting operational difficulties. It also warned the move could discourage large investors from investing in the country.



The consensus within the Sebi is tweaking the trade settlement cycle at a time when the domestic markets are seeing record FPI flows could upset the apple cart.

Since November, domestic stocks have seen inflows of over $10 billion highest-ever for a six-week period from domestic investors. During recent media interactions, Sebi Chairman Ajay Tyagi had said

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a T+1 settlement cycle was in the interest of everyone; however, it will be done only after factoring in views of all participants.

The shorter trade settlement cycle will help free up capital, make the markets more efficient, and reduce the default risk faced by clearing corporations. The move has assumed significance after the Sebi tightened upfront margin norms.

At present, the domestic equity markets follow a T+2 settlement —the transfer of cash and securities between the buyer and seller gets completed two days after the trading day.

Meanwhile, the Sebi's decision to tweak the free float norms for CIRP companies stems from the sharp spurt in shares of Ruchi Soya Industries. The company's shares surged more than 450 times after it got relisted following the acquisition by Pantanjali Ayurved under the CIRP. The sharp rise on the ultra-low free float of less than a per cent had sparked a debate on whether the Sebi and the stock exchanges should revisit rules to ensure fair price discovery. In August, the Sebi had floated a discussion paper seeking market feedback on whether the threshold for minimum public shareholding (MPS) at the time of relisting should be set at 5 per cent or whether companies should be allowed to relist with any float on the condition that they will increase it to 10 per cent within six months.

At present, Sebi provides up to 18 months for companies' listing under the CIRP to hike their MPS to 10 per cent and another 18 months to take it to 25 per cent.

Sources said the Sebi board will also discuss amendments to the disclosure guidelines to help improve governance standards at listed companies.

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